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Central Intelligence Agency



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

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Trends in the Cost of Soviet Aid to Communist Countries

Summary

1. The cost of the Soviets' economic and military aid to other Communist countries has grown dramatically since the early 1970s. Aid to Eastern Europe, Cuba, Vietnam, Mongolia, Afghanistan and North Korea rose from \$1.7 billion in 1971 to \$23 billion in 1980 (Fig. 1)--equivalent to more than 1.5 percent of Soviet GNP--and we estimate that 1981 costs were at least as high. Trade subsidies, primarily to Eastern Europe, have paced the rapid increase in aid costs since the mid-1970s. That growth, plus increasing strains within the Soviet economy, have recently led to a tougher aid posture, despite the substantial political and strategic benefit that Moscow derives from extending such support.

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Introduction

2. This memorandum briefly summarizes the costs of the Soviet Union's economic and military aid to Communist allies since 1970. Trends in the costs of assistance are analyzed, and recent Soviet efforts to slow the increase in those costs are discussed. In this memorandum, "allies" will include Eastern Europe (Bulgaria, Czechoslovakia, East Germany,

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Hungary, Poland, and Romania), Cuba, Vietnam, Mongolia, Afghanistan, and North Korea.¹

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3. [redacted] the data on trade subsidies to Eastern Europe--a major portion of Soviet aid--suffer from important limitations. In determining how much more the Soviets paid for East European manufactures than would have been paid on the world market, we discounted the Soviet-applied prices by 30 percent. There is disagreement within and outside the intelligence community, however, as to the proper discount.² A higher or lower discount would affect the level of overall trade subsidies. We do not believe, however, that it would substantially alter the trend in our estimates. In addition, the opportunity costs of oil delivered to allies instead of sold for hard currency are still preliminary, because the Soviets' potential difficulty in selling that oil on the world market has not been fully evaluated.

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Trends in Aid Costs

4. Soviet assistance to Communist countries has changed during the past decade both in its cost structure and in its leading beneficiaries (Table 1, Fig. 2). In 1971, Cuba was the largest recipient, and conventional development aid was the major cost to Moscow. By the early 1980s, trade subsidies to Eastern Europe were the dominant portion of the burden.

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5. Soviet assistance to Communist clients covers four categories:

Trade Subsidies -- Soviet exports (primarily fuels and raw materials) at below-market prices and imports of clients' goods at above-market prices. The jumps in world oil prices in the 1970s helped raise the share of subsidies in total aid costs from 20 percent in 1971 to more than 80 percent currently. Much of

¹North Korea currently is not strictly a Soviet ally, but has been included because sizable aid was extended early in the 1970s.

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²Some have argued that the market value of East European manufactures may be as much as 50 percent below what the Soviets pay, while others have argued that the market value is closer to Soviet prices than we have assumed.

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[redacted]

that cost represents foregone hard currency earnings from fuels. The oil subsidy will diminish, however, as Soviet prices charged to clients gradually reach market levels.³

Trade Surpluses -- Client trade deficits with Moscow that generally will not be repaid promptly, if at all. Substantial surpluses emerged in the mid-1970s and reached \$1.6 billion in 1980, 7 percent of total aid costs.

Conventional Economic Aid -- Assistance with development projects and commodity purchases, extended through credits at concessionary rates and, occasionally, through grants. Conventional aid fell from more than half of total aid costs in 1971 to 7 percent in 1980.

Military Aid -- Arms and support equipment, usually transferred through grants. Such assistance has rarely exceeded 10 percent of total aid costs during the past decade and has generally reflected fluctuations in military deliveries to Vietnam. Eastern Europe is not included in this aid category, since it procures its Soviet weapons at competitive prices, and Moscow's costs of maintaining Soviet troops on foreign soil is not considered a transfer to the host country. The latter point is also true for Afghanistan.

6. Moscow's Communist aid recipients vary in the level and types of costs they represent.

Eastern Europe -- Trade subsidies represent almost 90 percent of Soviet support for the region (Table 2) and have made it Moscow's most costly aid beneficiary. With world prices for Soviet fuels and raw materials rising during the 1970s much faster than the market value of East European manufactured goods, Soviet export and import subsidies have raised the region's share of total aid costs from 20 percent in 1971 to more than 80 percent currently. East Germany is the largest subsidy recipient, followed in approximate order by Bulgaria, Czechoslovakia, Poland, Hungary, and Romania. The Soviets have also run

³Since 1976, the price of the USSR's oil deliveries to its allies has been based on a five-year moving average of world market prices. By 1979, when OPEC prices soared, the Soviet price was much closer to market levels than at mid-decade. Although the 1979 jump again pushed world prices well beyond the CEMA average, in 1982 world and CEMA prices are again much closer and should close further while the international oil market remains soft. [redacted]

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increasingly large trade surpluses with Eastern Europe since the mid-1970s. The region's deteriorating economic condition makes repayment unlikely anytime soon. Poland is one of the largest recipients of all forms of Soviet aid. Subsidies, trade surpluses and hard currency assistance to Warsaw increased from \$4 billion in 1980 to \$6 billion in 1981. We expect that aid to remain high in 1982.

Cuba -- Conventional economic assistance, which dominated Soviet aid in the early 1970s, has given way to trade subsidies (Table 3). Soviet purchases of Cuban sugar and nickel at "premium" prices and concessionary sales of oil have combined with increased military aid to triple aid costs since 1975.

Vietnam -- Soviet support has grown markedly since the mid-1970s (Table 4). The costs of commodity assistance and project aid have risen slightly, but military assistance has led the increase, including a record \$1 billion in 1979 arms deliveries following the Sino-Vietnamese conflict.

Afghanistan -- The Soviet military build-up since 1979 has been accompanied by an increase in both economic (primarily food) and military grants (Table 5). Nonetheless, excluding the costs of Soviet military operations in the country, Afghanistan represents only a small portion of the total Soviet aid burden.⁴

Mongolia and North Korea -- Neither country has posed a large aid burden for the USSR. Mongolia has been supported primarily through trade surpluses, which include development project assistance. North Korea, not a real Soviet ally in recent years, has received the least aid, and even that assistance may be declining.

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Pulling the Pursestrings

7. The Soviets almost certainly believe that their aid effort brings substantial strategic and political benefits, but its rising cost and domestic economic stringencies are prompting them to make cutbacks. Moscow almost certainly is prepared to continue shouldering a substantial aid burden, since its clients' economies are generally in trouble, and their economic and political stability is important to Soviet foreign

⁴We estimate total 1981 Soviet costs for their military operation in Afghanistan at roughly \$3 billion, or approximately 1 percent of their defense outlays for that year.

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policy objectives. Moscow wants Eastern Europe to remain a strategically important buffer of politically reliable states. Vietnam serves as a useful ally against China and provides a means of increasing Soviet presence in Southeast Asia. Cuba has generally enhanced Soviet influence in Latin America and has been instrumental in furthering Moscow's objectives in several African conflicts. Moreover, subsidies of oil deliveries--one of the largest aid costs--will gradually decrease as the CEMA pricing formula brings Soviet oil prices closer to world levels. On the other hand, we have seen no signs of reduced Soviet military support, particularly of Cuba, Vietnam and Afghanistan. Moscow almost certainly will not attach to that assistance the stringent financial conditions--such as hard currency payments on delivery--that are applied to some non-Communist LDC clients. The Soviets presumably have long viewed arms aid as their most effective source of influence among Third World countries.

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8. Nonetheless, as the Soviets' economic position has worsened, they have begun attempting to slow the rise in aid costs:

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9. Moscow probably believes that marginal reductions in economic aid will not hurt relations with its allies, but it could encounter some pitfalls. Most of its allies' economic problems are growing, and even minor reductions in support will widen the gap between their needs and Soviet assistance, creating political difficulties in some cases. The East Europeans, already experiencing economic stagnation, might ultimately agitate for the Soviets to shoulder more of the burden of Warsaw Pact force modernization. Some of them might also seek greater Western assistance--as Hungary has already done in recently joining the IMF--

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hampering Soviet plans for closer regional economic integration. Vietnam, disappointed with its Soviet aid, has also begun looking for Western support [redacted] Cuba has not yet expressed unhappiness with Soviet assistance but is almost certainly apprehensive about future reductions. [redacted]

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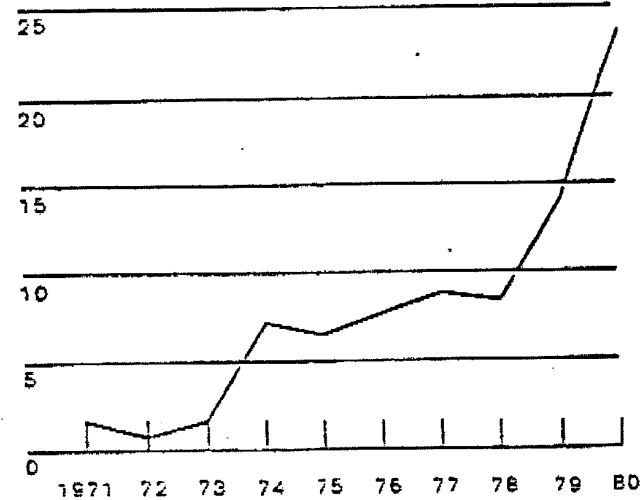
10. Moscow is probably aware of such hazards and is seeking, in a trial-and-error fashion, to determine how much economic assistance it can politically afford to halt. If relations with some allies become seriously troubled by existing or contemplated cutbacks, the Soviet can return assistance to previous levels. The USSR's slowing economic growth, however, will probably pressure Moscow in coming years to attempt aid reductions whenever it believes that its clients can adjust to them without substantial economic or political disruption. [redacted]

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Figure 1
USSR: Total Cost of Aid to
Communist Countries

Billion US \$



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Table 1

Million US \$

USSR: Economic Costs of Supporting Communist Countries

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	1,737	976	1,705	7,349	6,593	7,806	8,955	8,490	13,562	23,043
By area										
Eastern Europe	358	- 746	174	5,384	4,678	5,124	5,723	3,874	7,490	18,050
Cuba	607	701	652	754	1,122	1,725	2,051	3,252	3,135	3,228
Vietnam *	386	637	428	789	313	352	344	449	1,644	1,106
North Korea	254	190	156	101	92	64	84	22	133	NA
Mongolia	105	165	223	244	348	468	613	714	672	493
Afghanistan *	27	29	72	77	40	73	140	179	288	166
By type of cost										
Trade subsidies	443	- 61	918	5,711	5,126	5,780	6,314	6,367	9,265	18,906
Export surpluses *	- 29	- 685	- 594	101	472	714	1,190	146	899	1,569
Economic aid	89	1,077	925	832	746	955	1,140	1,429	1,763	1,602
Military aid	426	695	456	705	247	357	313	548	1,632	966

* Includes military equipment deliveries to Laos and Kampuchea.

* Afghanistan is included because it is clearly a client state at the moment.

* Eastern Europe only.

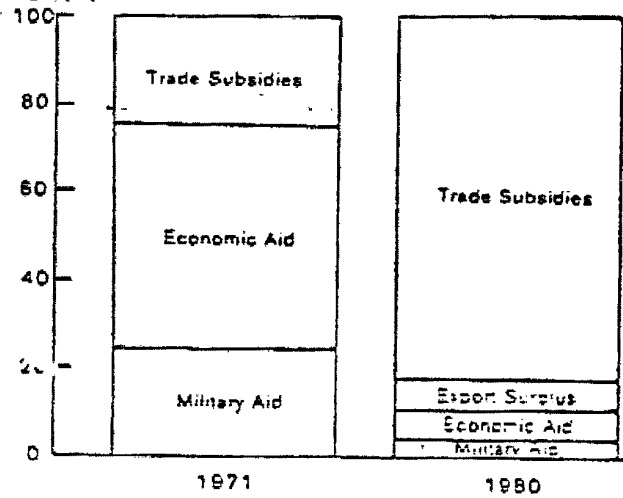
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Figure 2

USSR: Costs of Aid to Communist Countries

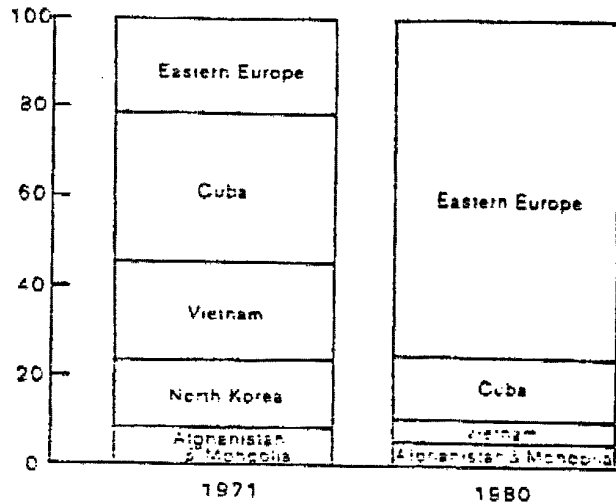
By Type of Cost

Percent



By Country

Percent



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Table 2 Million US \$

USSR: Economic Assistance to Eastern Europe

	1971	1972	1973	1974	1975	1976	1977	1978	1979 *	1980 *
Total	358	-746	174	5,384	4,678	5,124	5,723	3,874	7,490	18,058
Implicit subsidies	387	-61	768	5,283	4,906	4,410	4,533	3,728	6,591	16,481
Trade surpluses	-29	-685	-594	101	472	714	1,190	146	899	1,569

* Estimated from preliminary data.



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Table 3

Million U.S. \$

USSR: Economic and Military Assistance to Cuba

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	607	701	651	754	1,122	1,725	2,051	3,252	3,335	3,228
Economic aid	509	632	437	289	150	150	210	330	440	570
Trade and development	427	535	404	255	115	115	175	295	405	535
Interest charges	57	69	0	0	0	0	0	0	0	0
Other invisibles	25	28	33	34	35	35	35	35	35	35
Subsidies	56	0	150	407	901	1,357	1,772	2,638	2,667	2,425
Sugar	56	0	97	NEG.	580	977	1,428	2,435	2,287	1,035
Petroleum	0	0	0	369	290	362	328	165	365	1,390
Nickel	0	0	53	38	81	18	16	38	15	0
Military equipment deliveries	42	69	65	58	71	218	69	264	228	233

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Table 4 Million US \$

USSR: Economic and Military Assistance to Indochina

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	386	637	428	789	313	352	344	449	1,644	1,106
Economic aid *	196	157	218	271	229	305	291	335	572	417
Trade surplus *	131	87	143	196	134	225	196	225	457	297
Economic grants *	50	50	50	50	50	50	50	50	50	50
Technical services *	15	20	25	25	25	30	45	60	65	70
Military equipment deliveries	190	480	210	518	84	47	53	114	1,072	689
Vietnam	190	480	210	120	73	32	12	91	1,058	606
Laos and Kampuchea	0	0	0	298	11	15	41	23	14	83

* Including economic aid to Vietnam only. No trade subsidies have been calculated.

* From the Soviet foreign trade handbook; used as a rough estimate of economic aid, excluding grants and services.

* Based on proportion of grants in reported commitments.

* Minimum estimated value of Soviet technicians in Vietnam and training of Vietnamese in the USSR.

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Table 5

Million US \$

USSR: Economic and Military Aid to Afghanistan

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	27	29	72	77	40	73	140	179	288	166
Economic aid *	12	9	-3	2	5	28	50	94	93	146
Trade surplus *	12	9	-3	2	5	28	50	94	93	-9
Economic grants	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL	25	155
Military aid	15	20	75	75	35	45	90	85	195	20

* From the Soviet foreign trade handbook—used as a rough estimate of economic aid, excluding grants and services.

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